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DEPT FOR EAP/MTS AND  
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TAGS: [ECON](#) [ETRD](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [KMCA](#) [PHUM](#) [ID](#)  
SUBJECT: VP KALLA ON THE COURTS, MCC, PEACE CORPS AND MIDDLE  
EAST

11. (SBU) Summary. Vice President Jusuf Kalla told the Ambassador on October 20 that the Supreme Court is "not using logic" in its approach to the Munir case, and that people are rightly not happy with the Pollycarpus verdict. He said the Supreme Court would soon reconsider its decision taking into account the obvious fact that Munir's killer must have been on the airplane. Kalla said he has sent "tough instructions" to the Education Ministry to improve educational standards, and added that an eventual Millennium Challenge Corporation (MCC) compact could be very important in this process. Kalla noted it would be very good if U.S. Peace Corps volunteers could help raise Indonesia's English-language proficiency up to levels in India, Pakistan, and Bangladesh. Kalla gave an overview of the ethnic conflict in Central Sulawesi and opined that economic development was the key to ending the violence. He observed that the Israel-Palestine conflict has led to higher oil prices that have harmed 70 percent of Muslim nations, including Indonesia. He said Muslim countries should make their assistance to Palestine "conditional" on efforts to solve the conflict, with the U.S. and other Western countries playing the same role vis-a-vis Israel. The Ambassador noted that the U.S. is serious about finding ways to increase our assistance to Indonesia, and said that the U.S. wants to talk closely with Indonesia about possible investments in Iran so Indonesia understands U.S. sanctions laws. End Summary.

Economic, Trade and Finance Issues  
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12. (SBU) The Ambassador and Vice President Kalla met for 75 minutes at Kalla's office on October 20. The Ambassador began by congratulating Kalla for his very successful September 2006 trip to Washington, noting it had won Indonesia a lot of favorable attention from potential U.S. investors. Washington is sincere in its desire to help Indonesia, the Ambassador noted, and wants to figure out concrete ways of expanding our assistance. Kalla replied that he is following up his conversations in Washington with ExxonMobil, Chevron, and Newmont (concerning a possible new mine development) and other companies, as well as with the World Bank. He said he is looking forward to President Bush's upcoming visit to Indonesia, which would be "short but very high quality." There should be "not so many receptions, but good discussions," Kalla observed. The MCC and avian influenza are important topics for discussion, as well as the "standard" security cooperation issues, he said.

13. (SBU) The Ambassador and Kalla then discussed a number of specific economic, health, and development issues:

--Revised OPIC Investment Incentive Agreement (IIA): The Ambassador noted that 68 countries have signed an IIA substantially similar to the draft the Embassy has provided the GOI. He said the U.S. is pleased that the Ministry of Finance (MOF) is working on the draft agreement, and added the U.S. hopes to sign the revised IIA prior to the President's visit. OPIC's negotiator is scheduled to visit Jakarta November 6-7, the Ambassador noted, but we could ask him to visit earlier if the GOI would be interested in signing a revised agreement at the November 1-3 Infrastructure Forum. Kalla responded that the GOI is trying to move the agreement forward, and said his office has sent a memo instructing the MOF to move forward. The Vice President's office will meet with the MOF and the National Development Planning Agency (Bappenas) after the holiday break to discuss the draft agreement. The GOI "does not have much problem with the issues," Kalla noted.

--Aceh Road: The Ambassador thanked Kalla for his assistance acquiring the right-of-way for the road, and noted that things are moving forward with construction on the first 40 kilometers underway.

--Fruit Flies (Decree 37): The Ambassador noted that there has been lots of back and forth on the issue but still no solution. Indonesia runs a \$7 billion trade surplus with the U.S., so it seems gratuitous to shut off \$50 million in U.S. apple and grape exports. U.S. apples don't compete with Indonesian apples, the Ambassador noted, and with apple season beginning now, U.S. apple exports are under threat.

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Kalla responded that he had received a letter on the issue from USTR Schwab and Agriculture Secretary Johanns, and had asked the Agriculture and Trade ministries to report on their efforts to resolve the issue. (Note: Embassy has since received written confirmation from the Ministry of Agriculture agreeing to a visit to California and Washington for November 5-11. This visit had been previously proposed three times without success by USDA.)

--Avian Influenza: The USG is working to get more money to assist Indonesia with AI, the Ambassador noted, but additional U.S. funding is dependent on the GOI's own resource decisions. It is very important for the GOI to support the National AI Committee as well as Ministry of Agriculture (MOA) poultry culling and vaccination efforts.

--Lapindo Mudflow Problem: The U.S. companies working at the mudflow site were very upset over the weekend of October 14-15 because they had not been paid, the Ambassador said, and had threatened to pull out. However, Minister of Energy and Mineral Resources Purnomo Yusgiantoro had interceded and guaranteed payment. Nonetheless there are constant delays, making it important to keep a close eye on Lapindo. The U.S. companies remain confident they will succeed in shutting down the mudflow in the end, but the effort will take time and money. Kalla visibly grimaced at the mention of this problem and said he would speak to the GOI official in charge of the Lapindo case.

Investment Climate and Court Reform  
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14. (SBU) The Ambassador noted that U.S. Chamber of Commerce President Tom Donohue's November 12-14 visit should help build confidence among U.S. investors. However, Indonesia's court system remains a big worry among U.S. investors, the Ambassador said. The recent Supreme Court ruling on the Munir case and the Newmont trial in North Sulawesi are not helpful. If the Newmont trial goes the wrong way, the Ambassador added, the impact on the investment climate could

be severe, particularly since the prosecution has presented no credible evidence despite more than a year of testimony.

15. (SBU) Kalla responded that he understands the problem with the courts, which he said suffer from "triple control" via the Supreme Court, the Constitutional Court, and the Judicial Commission. He said he had discussed the Munir case with Supreme Court Chief Justice Bagir Manan, and told Manan that the Court was "not using logic." The killer was obviously in the airplane, Kalla said, and people are rightly not happy with the Pollycarpus verdict. Kalla said the Supreme Court would reconsider its decision soon using this logic. He also claimed many Indonesians believe the courts are too strong because they hand out ten-year sentences for Rp 1 billion (US \$109 thousand) corruption cases, as had happened in the case of the Election Commission. He added that the Karaha Bodas investment dispute has also not made the GOI happy, and it is difficult for the GOI to understand why it should have to pay \$300 million in compensation for a \$50 million investment.

#### The MCC's Role in Improving Educational Standards

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16. (U) The Ambassador said Indonesia's \$55 million Threshold Program is currently under review by the MCC. The program focuses on anti-corruption and immunization and will be implemented by USAID. Indonesia needs to continue making progress on these areas to qualify for compact eligibility, the Ambassador noted. Should Indonesia qualify, MCC compact eligibility and an eventual grant award would bring with it more resources, which the GOI could devote to its top priorities--perhaps infrastructure, health, education, or other areas. Unlike current assistance programs, it would be structured like a business contract with a strong emphasis on benchmarks.

17. (U) Kalla agreed that a potential MCC compact should be results-oriented. The GOI's own development programs tend to focus on setting up projects rather than on the quality of the results, Kalla noted, particularly in the Education

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and Public Works ministries. The Education Ministry only cares about the number of degrees awarded, not their quality, Kalla said. I have given "tough instructions" to the Education Ministry, Kalla said. We need new standards for curriculum, teachers, and school buildings to raise the quality of education, Kalla noted, and the MCC could be very important in this process.

18. (U) Indonesia is a democratic country, Kalla continued, but if people don't see their lives improving, they say "for what?" That's why the MCC is important for Indonesia, Kalla noted, and why he raised it with Secretary Rice. Kalla noted it was ironic that when Indonesia was not a democracy and not open, the Government sent many people overseas to be educated. But now that Indonesia is a democratic and open country, the situation has reversed, with less money available for foreign education.

#### The Peace Corps--Raising Foreign Language Skills

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19. (SBU) Kalla and the Ambassador agreed that a Peace Corps program would be good for Indonesia. Kalla and President Yudhoyono have both made public statements calling for increasing Indonesia's foreign language capability, and the Peace Corps would be a good fit for the country. Kalla said it would be "very good" if Peace Corps volunteers could help improve instruction in English-language proficiency. Getting a group of dedicated foreigners out into Indonesia's schools could help with efforts to modernize them. Kalla emphasized that he "agrees with the Peace Corps idea." He also suggested they might train on information technology (IT) issues. Indonesia's higher education system faces two

main problems, he said: a lack of IT in schools, and an overall lower level of English-language proficiency than India, Pakistan, and Bangladesh. Kalla said he had had discussions with Microsoft about improving the level of IT in Indonesia's schools. Having a resident Peace Corps volunteer would also raise the prestige of schools, and build lasting friendships with the U.S.

#### Economic Factors Behind Central Sulawesi Conflict

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¶10. (SBU) Kalla said the eight-year-old inter-religious conflict in Central Sulawesi had almost been resolved, until fresh violence again increased tensions. Traditionally, Kalla said, Poso's 60/40 split between Christians and Muslims was comparable to Lebanon. However, economic development and previous transmigration policies encouraged Madurese and even his fellow Bugis to flow into the area, eventually creating a Muslim majority. The appointment of local leaders on a proportional basis in the Soeharto era kept a lid on ethnic tensions, but local direct elections ushered in a Muslim majority to the provincial assembly and installed Muslim leaders at all levels of local government. As a result, Christians felt marginalized and threatened.

¶11. (SBU) Kalla opined that economic development in the conflict area, non-existent since fighting began, was a key to solving the on-going violence. The police numbered close to 7,000 in the Poso area and used cell phone monitoring to pursue those behind the violence, but the bombs and the killing have continued. The Ambassador added that the U.S. was sympathetic to the police effort against the "thugs" that promoted continued attacks, and noted that the conflict was a breeding ground for a new generation of fighters that the GOI must now control. Kalla said he was able to control the mujahideen and Laskar Jihad fighters, who actually constituted only a small number of the conflict's combatants. He said economic incentives were important, and added that the young men in the conflict area would do anything for as little as US \$10. Kalla said the solution must involve "intellectual sponsors" who can communicate and reason with the people.

#### Impact of Middle East Politics on Muslim Countries

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¶12. (SBU) Kalla noted he had met Saudi Foreign Minister Saud Al-Faisal in Jeddah and told him that the oil producing

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nations of the Middle East are rich largely because the Israel-Palestine conflict has driven oil prices up. But 70% of Muslim nations, including Bangladesh, Pakistan, Indonesia, Turkey, and Sudan are negatively affected by high oil prices. Muslim countries should push to solve the problem, Kalla said, without giving unconditional support to Palestine. By the same token, the U.S. and other Western countries should push Israel to compromise. Indonesia simply doesn't gain from the current situation. "It makes us poorer and creates more problems in the economy", Kalla said. If we could solve the Israel-Palestine problem, we could also deal with Hezbollah, Hamas, and other extremist groups. Kalla said he had spoken with Organization of Islamic Conference Secretary and told him that the victims of the Middle East conflict are Islamic countries.

¶13. (SBU) The Ambassador noted that the U.S. wants to work closely with Indonesia on this and other issues. Kalla responded that Indonesia could play a role in helping convince Muslim countries to take a more conditional approach to their assistance to Palestine. He said he had told the Palestinian Ambassador in Jakarta "we will support you, but with conditions." Secretary Rice's comments about Palestine had been very good, Kalla added. "We can solve every problem through personal relationships," he concluded. "We want to build a new fertilizer factory in Iran, but want

a good price for the natural gas feedstock." Kalla had explained this to the Iranian side. However, "We can't talk to North Korea because we have no relationship--the North Koreans are upset with President Yudhoyono because he has cancelled his visit," Kalla noted.

¶14. (SBU) The Ambassador concluded by noting U.S. and Arab concerns about Iranian actions. He said we wanted close discussions with Indonesia on dealing with Iran. There are tough U.S. sanctions on Iran, the Ambassador said, and "we want to make sure you have complete information to avoid problems."

New Embassy Building

¶15. (SBU) The Ambassador noted that the new Embassy project is moving forward, with an attractive preliminary design that should be satisfactory to the GOI. There have been close consultations with the Jakarta city government. However, we are still facing difficulties securing user rights for two parcels of land within the present Embassy compound that the USG does not own. Although negotiations with the MOF have not yet touched on the issue of price, one possible option might be to swap an Embassy-owned parcel of land near the Hotel Aryaduta for the two parcels on the Embassy compound. This might be an ideal solution and be easier to arrange than an outright sale, the Ambassador said.

PASCOE